

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4083-03
Bill No.: Perfected HCS for HB 1675
Subject: Employees - Employers; Economic Development
Type: Original
Date: February 16, 2010

Bill Summary: This proposal provides tax incentives for qualified manufacturing facilities or qualified suppliers that create or retain jobs in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$99,259 to \$35,099,259)	(\$108,949 to \$35,108,949)	(\$112,217 to \$35,112,217)
Total Estimated Net Effect on General Revenue Fund	(\$99,259 to \$35,099,259)	(\$108,949 to \$35,108,949)	(\$112,217 to \$35,112,217)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials for the **Office of Administration - Budget and Planning (BAP)** state this proposal provides incentives in the form of reduced withholdings for qualified manufacturing companies or qualified suppliers that create new jobs or retain jobs. The total aggregate amount of retained withholding tax is capped at \$35 million; therefore, this proposal may reduce general and total state revenues up to that amount, to the extent that withholding incentives are granted to companies that retain jobs. This proposal may stimulate other economic activity, but BAP does not have an estimate of any induced revenues. The Department of Economic Development may have an estimate of incentives expected to be granted under this program.

Officials from the **Department of Economic Development (DED)** stated the proposed legislation provides incentives for qualified manufacturing facilities or qualified suppliers. DED assumes the proposed legislation would result in the need for two additional FTE in Business and Community Services (BCS). These FTE would be Economic Development Incentive Specialist IIIs and would be responsible for administering the program. The related costs for these FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel. DED assumes the cost for these FTE to total roughly \$145,000 per year.

Oversight assumes DED's estimate of expense and equipment cost for the new FTEs could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$11,800.

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$21,306 (840 FTE hours) to make programming changes to the withholding tax processing system.

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the ITSD costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

DOR also assumes the need for two additional FTE to administer the changes to the withholding tax from both manufacturers as well as suppliers. DOR assumes a cost for these additional FTE of roughly \$85,000 per year.

Oversight assumes DOR's estimate of expense and equipment cost for the new FTEs could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$11,200.

With the narrow definition of 'qualified manufacturing facility' as well as 'qualified supplier', **Oversight** will assume enough companies will qualify for the benefits of this proposal to only justify one FTE each for the Department of Economic Development and the Department of Revenue. If the program is successful and more companies qualify for the benefits than what Oversight anticipates, Oversight assumes DED and DOR could request additional FTE through the appropriations process.

Oversight has, for fiscal note purposes only, changed the starting salary for DOR's additional employee to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes there would be some positive economic benefit to the state as a result of the new programs in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note. This substitute has an annual limit of \$35 million in withholding benefits that may be awarded under this program; therefore, Oversight will assume a range of \$0 (no companies qualify for the program) to a potential annual loss of \$35 million in withholding tax revenue.

This proposal may decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Costs - Department of Economic Development</u>			
Personal Service (1 FTE)	(\$35,803)	(\$44,253)	(\$45,580)
Fringe Benefits	(\$18,775)	(\$23,206)	(\$23,902)
Expense and Equipment	<u>(\$8,983)</u>	<u>(\$4,293)</u>	<u>(\$4,422)</u>
<u>Total Costs - DED</u>	(\$63,561)	(\$71,752)	(\$73,904)
FTE Change - DED	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2011 (10 Mo.)	FY 2012	FY 2013
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	(\$19,467)	(\$24,061)	(\$24,783)
Fringe Benefits	(\$10,208)	(\$12,618)	(\$12,996)
Expense and Equipment	<u>(\$6,023)</u>	<u>(\$518)</u>	<u>(\$534)</u>
<u>Total Costs - DOR</u>	(\$35,698)	(\$37,197)	(\$38,313)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss - DED</u>			
Retained withholding tax from qualified manufacturing facilities and/or qualified suppliers	\$0 to <u>(\$35,000,000)</u>	\$0 to <u>(\$35,000,000)</u>	\$0 to <u>(\$35,000,000)</u>
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	(\$99,259 to <u>\$35,099,259</u>)	(\$108,949 to <u>\$35,108,949</u>)	(\$112,217 to <u>\$35,112,217</u>)
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for this program would be positively impacted from this proposal.

FISCAL DESCRIPTION

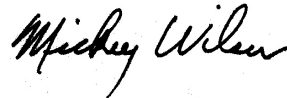
This proposal provides tax incentives for qualified manufacturing facilities or qualified suppliers that create or retain jobs in Missouri. A qualified manufacturing facility may retain fifty percent of the withholding tax from retained jobs for a period of ten years. The manufacturing facility may also qualify for the Qualify Jobs program if receiving benefits from this program. A qualified supplier may retain all withholding tax from new jobs for a period of three years (or for five years if the supplier pays wages equal to or greater than 120% of industry average wage). The total aggregate amount of retained withholding tax from this program shall not exceed \$35 million per year.

Prior to March first each year, the department shall provide a report to the general assembly including the names of participating qualified manufacturing facilities or qualified suppliers, location of such facilities or suppliers, the annual amount of benefits provided, the estimated net state fiscal impact (direct and indirect new state taxes derived), and the number of new jobs created or jobs retained.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration - Budget and Planning
Office of the Secretary of State



Mickey Wilson, CPA
Director
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